

The complaint

Mr C has complained that Greenlight Credit Ltd trading as Varooma lent to him irresponsibly.

What happened

I issued a provisional decision about this complaint in November 2020 that I summarise below.

Mr C was given two logbook loans by Varooma in May and November 2018. The loans were secured against a vehicle that he owned.

The first loan taken in May 2018 was for £500 and was due to be repaid in 12 monthly instalments of around £72.

The second loan was taken around six months later in November. The principal amount borrowed was £850 which was due to be repaid in 18 monthly instalments of around £103. I understand this second loan was partly used to pay off the balance of the first loan.

Mr C complains that Varooma shouldn't have given him either loan and that he had a very low credit score and was suffering from poor mental health and PTSD at the time.

During the course of this complaint, Varooma made an offer to Mr C which he initially accepted but then later decided to reject. So the complaint was re-opened and it was passed to me to resolve matters.

I explained the basis on which I would decide the complaint, in particular the checks that Varooma needed to do such as the amount being lent, and the consumer's income and expenditure. With this in mind, I thought less thorough checks might be reasonable and proportionate in the early stages of the lending relationship.

I said that Varooma was required to establish whether Mr C could sustainably repay his loans - not just whether the loan payments were technically affordable on a strict pounds and pence calculation.

I had seen only limited information about the checks that Varooma carried out before it gave the first loan to Mr C. I thought it's likely that the checks Varooma did before agreeing to the first loan were reasonable and proportionate - given what Mr C had told Varooma about his circumstances, and the amounts he needed to repay in relation to the disposable income he'd declared. I didn't think it would've been proportionate for Varooma to ask Mr C for the amount of information that would be needed to show the lending was unsustainable before agreeing the first loan. So I wasn't intending to uphold the complaint about the first loan.

Varooma told us it no longer holds the credit report it carried out when Mr C applied for his

second loan. It says this type of lending is often made available to borrowers with low credit scores and that the loan was affordable at the time. But as I'd explained, Varooma was required to establish whether Mr C could sustainably repay his loan – not just whether the loan payments were affordable on a strict pounds and pence calculation. The loan payments being 'affordable' on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. This is because the relevant regulations define sustainable as being without undue difficulties and in particular the customer should be able to make repayments on time, while meeting other reasonable commitments; as well as without having to borrow to meet the repayments. And it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower won't be able to make their repayments sustainably if they're unlikely to be able to make their repayments without borrowing further.

Overall, I didn't think Varooma's checks went far enough when Mr C applied for his second loan. And I didn't think the lender did enough to check that the lending was sustainable before lending to him for the second time.

I accepted that this was still the early stages of Varooma's lending relationship with Mr C. So in some circumstances, I thought less thorough checks might be reasonable and proportionate.

But Mr C had to maintain larger repayments with 18 instalments over an extended period of time. Mr C was also returning to re-finance his first loan only halfway through the first loan's term, and he was borrowing an increased amount which he needed to repay over a longer term. Varooma viewed a summary of Mr C's bank account on a mobile phone. But this appears to have been in order to satisfy itself about Mr C's income only. Mr C didn't tell Varooma about his financial problems at the time, but in the circumstances I would have expected Varooma to want to learn more about Mr C's true financial position before it agreed to the second loan - in order to satisfy itself that he could repay his second loan sustainably, over an extended period.

So as well as asking Mr C about his income and expenditure, I thought Varooma should have carried out more detailed and independent checks into Mr C's financial circumstances before agreeing to the second loan – for example by asking to see his bank statements.

Mr C provided us with copies of his bank statements leading up to his application for a second loan, so I could determine what better checks might have shown Varooma at that time. And I considered this information in light of what I've set out above. Of course, different checks might show different things. But I thought if Varooma had carried out what I consider to be proportionate checks, I thought it's likely it would have discovered more about Mr C's financial position. In particular I thought it more likely than not Varooma would have realised that Mr C was regularly gambling considerable amounts of money. Mr C's bank statements show a large number of payments leaving his bank account via an online financial service (which Mr C confirmed as being primarily his channel for gambling), as well as other payments frequently being made to online betting and gaming companies.

As I'd already explained, Varooma was required to establish whether Mr C could *sustainably* make his loan repayments. I think it's likely that with better checks Varooma would reasonably have concluded that Mr C was having serious difficulties managing his finances and that he was most likely borrowing as a result of his gambling – and would also most likely need to borrow elsewhere to repay his loan from Varooma. I thought Varooma would have realised that it was unlikely that Mr C would be able to sustainably repay his second loan. So it ought reasonably to have concluded that it was not appropriate to lend any further to him. So I said I was intending to uphold Mr C's complaint about his second loan.

I invited both parties to send me any further comments or evidence. Mr C and Varooma both told us that they had nothing further to add by way of evidence about this complaint. Varooma also sent us its calculation of the refund due to Mr C, based on my provisional decision.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I'd like to thank both parties for all the information that has been provided about this matter and for responding so promptly to my provisional decision. Given that I've not received any further evidence or comment that changes my mind about this complaint, I confirm the conclusions I reached in my provisional decision.

I don't uphold Mr C's complaint about his first loan. But I don't think Varooma should have provided him with the second loan. So Varooma should put things right.

Putting things right

I think it is fair and reasonable for Mr C to repay the principal amount that he borrowed, because he had the benefit of that lending. But he has paid interest and charges on the second loan that shouldn't have been provided to him.

So Varooma should:

- Remove all interest, fees and charges from the second loan and treat all the payments Mr C made as payments towards the capital.
- If reworking Mr C's loan account results in his having effectively made payments above the original capital borrowed, then Varooma should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled*.
- If reworking the account leaves an amount of capital still to be paid, then Varooma should try to agree an affordable repayment plan with Mr C, bearing in mind its obligation to treat him positively and sympathetically in these discussions.
- I understand that Varooma might have already returned the logbook to Mr C, but if it has not done this, it should cancel the bill of sale and return the V5 document to him once any outstanding capital has been repaid.
- Remove any adverse information recorded on Mr C's credit file in relation to the second loan.

*HM Revenue & Customs requires Varooma to deduct tax from this interest. Varooma should give Mr C a certificate showing how much tax it's deducted, if he asks for one.

My final decision

For the reasons given above, I partly uphold this complaint and direct Greenlight Credit Limited trading as Varooma to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 22 December 2020.

Sharon Parr
Ombudsman